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A Titan Under A Microscope

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Minh Uong/The New York TimesSteven A. Cohen, the once-secretive billionaire hedge fund manager, is suddenly everywhere.

On Monday, Mr. Cohen and his wife attended the Metropolitan Museum of Art's annual Costume Institute gala, where they rubbed elbows with the rock star Mick Jagger and the quarterback Tom Brady. On Wednesday, he is scheduled to speak, before former President George W. Bush, at a prominent hedge fund conference in Las Vegas. Earlier this year, he made his first trip to Davos, Switzerland, for the World Economic Forum, where he could be seen dancing the night away at a private party.

And Mr. Cohen is bidding to buy a large stake in the New York Mets from the team's owners.

Behind the scenes, life has not been nearly so fun.

Federal prosecutors are examining trades made in an account run by Mr. Cohen at SAC Capital Advisors, his hedge fund in Stamford, Conn., that manages about $12 billion, according to a government filing. The trades were suggested by two SAC portfolio managers who have pleaded guilty to insider trading-related crimes. The charges are part of a vast investigation into insider trading at hedge funds by the United States attorney in Manhattan that has resulted in criminal cases against at least 47 people over the last two years.

Meanwhile, Senator Charles E. Grassley, Republican of Iowa, asked the Financial Industry Regulatory Authority in a letter on April 26 to provide information on "potential scope of suspicious trading activity" at SAC.

For years, Mr. Cohen's firm has been beset by persistent whispers of a cowboy culture that often walked up to the line, if not over it, while generating stupefying returns, minting scores of millionaire traders and making Mr. Cohen a billionaire many times over.

Earlier this year, those whispers became louder when one of the SAC portfolio managers, Noah Freeman, admitted trading on illegal tips about publicly traded companies while working for Mr. Cohen and agreed to cooperate with the government's investigation, leading to questions about whether Mr. Cohen himself and the firm could become ensnared.

The other SAC portfolio manager, Donald Longueuil, pleaded guilty last week.

"The striking thing about SAC has always been its extraordinary performance in the absence of any identifiable special sauce," said Sebastian Mallaby, the author of "More Money Than God," a book published last year on the history of hedge funds. "Charges like these cast doubt on the legitimacy of the fund's investment process."

Neither SAC nor Mr. Cohen has been accused of any criminal wrongdoing and the firm is cooperating with the government's investigation. The government's interest in Mr. Cohen's trades was reported earlier by The Wall Street Journal.

Unlike many hedge funds that are controlled by one portfolio manager who makes all the investment decisions, SAC is decentralized; 142 small teams are each given control over hundred of millions of dollars to invest. Mr. Cohen attracts talented, ambitious traders because he offers to pay each team as if they run their own fund - without having to raise money and run a business.

"He's giving them a lot of autonomy - that's the pitch," said a former employee who asked for anonymity because he did not want to harm his relationship with Mr. Cohen. "Do I think the fish stinks at the head of SAC? No. But does the business model make it challenging to keep bad people from doing bad things? Yes."

The firm's unusual balkanized structure could ultimately insulate Mr. Cohen from any insider trading allegations. Most of the firm's traders invest on their own with little direct input from Mr. Cohen, who manages less than 10 percent of the fund's capital. The two SAC portfolio managers who pleaded guilty to insider trading worked in two different satellite offices - Boston and Manhattan - and had little contact with Mr. Cohen in the two years they worked at the firm.

Mr. Cohen, 54, who grew up in Great Neck, N.Y., on Long Island, spends most of his day either at his desk in the middle of an expansive trading floor in what feels like a domed football stadium or in his corner office, where he has an array of therapeutic devices for his bad back, including a massage table. From his desk, filled with computer screens, he manages his own portfolio, focusing primarily on health care, energy and industrial stocks. (He rarely trades technology stocks, which are the center of the government's vast investigation into insider trading at hedge funds.) He also monitors the firm's trading and with the flick of a switch can be piped in by video to any trader's desk to ask questions about a particular position.

Former SAC employees describe a firm that preaches ethics and integrity, but also is a sink-or-swim culture where traders can be summarily dismissed for poor performance. Mr. Cohen, who was once known to berate his employees in middle of the trading floor, imposes what he calls a "down and out" number for portfolio managers. That is, if the portfolio managers lose a certain amount of money, they risk being jettisoned from the firm.

Mr. Cohen will increase or decrease the money each team manages depending on their performance. If a trading team is generating strong returns, Mr. Cohen will often give them more

money to manage. Groups that are floundering can see their allotment cut back.

SAC portfolio managers are known for relentlessly pressing sources for information about companies in the hopes of building what they call a "mosaic" to gain an investment edge. They have incentives to share their best ideas with Mr. Cohen, and if they want to do so, they must fill out an electronic form explaining the investment and the thesis behind it. Each Sunday afternoon, Mr. Cohen speaks to his senior staff to grill them about their investment plans, but the majority of the firm's daily trades are made without consulting him.

Teams are paid a percentage of the profits that they generate for SAC, which, including its borrowings from banks, has a staggering $39 billion in total buying power. The more money a team manages, the greater that team's potential compensation. Top traders can earn tens of millions of dollars annually.

"It's a Darwinian and pressure-packed culture with ridiculous amounts of money at stake," said another former employee, who asked for anonymity because he did not want to spoil relationships at the firm.

In a letter sent to his investors in February when the two former portfolio mangers were arrested, Mr. Cohen wrote, "If the government allegations are true, these former employees' actions are egregious violations of our policies and ethical standards and inconsistent with our culture of compliance. Any wrongdoing that might have been committed by an individual or individuals is not reflective of our organization or the integrity of our more than 850 employees."

In the last several years, SAC has put in place a compliance program to monitor the firm's activities and has had lawyers including Harvey L. Pitt, the former chairman of the Securities and Exchange Commission , speak to the company's employees.

"Listen, we've beefed up our compliance," Mr. Cohen told Vanity Fair magazine last year. Still, he allowed, "This was a learning process."

He explained that, back in the 1990s, "you have to remember, we were smaller. Things were different then."

The firm has been under a cloud since a former employee, Richard Choo-Beng Lee, pleaded guilty in 2009 to insider trading and began helping the government in its investigation. The crimes he confessed to were committed after he left SAC, but he agreed to provide information about his five years at the firm, which ended in 2004.

The United States attorney in Manhattan has twice issued subpoenas to SAC requesting the firm's trading records. And late last year, F.B.I. agents raided two large hedge funds owned by former top SAC traders.

Mr. Cohen has declined to comment about the insider trading investigation. There have also been

at least two other instances of federal authorities citing illegal trading by traders with connections to SAC.

In 2009 federal prosecutors criminally charged an investment banker with providing illegal tips about merger and acquisition deals to an unnamed hedge fund analyst who traded on the information. The analyst, who generated $3.5 million in profits for his firm, was Jonathan Hollander, a former SAC employee, according to a person with direct knowledge of the case, who would not speak publicly about it.

Mr. Hollander's lawyer, Aitan D. Goelman, declined to comment. The government dismissed the complaint against the investment banker and has not charged Mr. Hollander with any wrongdoing.

Earlier this year, the Securities and Exchange Commission filed civil insider trading charges against Robert Feinblatt, who started his own hedge fund after leaving SAC in 2002. Mr. Feinblatt did not return telephone calls seeking comment.

Amid the distractions, Mr. Cohen continues to counter the long-held stereotype that he is a cagey hedge fund manager who never leaves his trading lair. He and his wife have stepped up his philanthropy, recently donating $50 million to finance the Cohen Children's Medical Center on Long Island. He frequently appears at art shows, where he looks to add to a world-class collection of paintings by artists including Pablo Picasso and Andy Warhol.

Before a packed banquet room at the Waldorf Astoria hotel, Mr. Cohen recently sat for an hourlong interview at an investment conference sponsored by a Wall Street research firm.

The interviewer was a fellow hedge fund titan, Paul Tudor Jones, who refrained from asking questions about the government's insider trading charges.

Instead, he asked Mr. Cohen about his market outlook.

"Underneath stocks are exploding, and everything I'm seeing today looks bullish," he said. "I'm not going to get negative just for the sake of being negative."

This is a more complete version of the story than the one that appeared in print.

PHOTOS: Donald Longueuil, right at top, a former manager at SAC Capital Advisors, leaving federal court in New York last month after pleading guilty to insider trading. Federal investigators are at work at the company's offices in Stamford, Conn., above. Steven A. Cohen founded the firm. (PHOTOGRAPHS BY RICK MAIMAN/BLOOMBERG NEWS; DOUGLAS HEALEY/BLOOMBERG NEWS) (B7)
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